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December 18, 1997

Cynthia L. Johnson, Director
Cash Management Policy and Planning Division
Financial Management Service
U.S. Department of the Treasury
Room 420
401 14th Street S.W.
Washington D.C. 20227

Department of the Treasury
31 CFR Part 208
Management of Federal Agency Disbursements
Proposed Rule

Dear Ms. Johnson:

You have requested comments in regard to this proposed rule for implementing the provisions of the Debt Collection Improvement Act of 1996 and the requirement for Federal agencies to convert from paper-based payments to Electronic Funds Transfer ("EFT"), primarily using the services of the Automated Clearing House ("ACH"). T. Rowe Price Associates, Inc., ("TRPA") appreciates this opportunity to provide input as to the implications the proposal would have on our firm and on corporate/vendor payments in general. TRPA is a registered investment adviser which, together with its affiliates, serves as investment adviser to more than 70 stock, bond and money market mutual funds. TRPA and its affiliates manage approximately $100 billion for over 5.5 million individual and institutional accounts.

TRPA commends the Federal government for taking this leadership role in promoting the use of EFT. We believe the use of EFT by Federal agencies could be a very positive development and could have a significant "ripple effect" in causing many more organizations and individuals to embrace electronic payments. TRPA and all vendors could benefit from more efficient banking and internal processing resulting from EFT. However, TRPA believes the rule, as proposed, would create major inefficiencies that could jeopardize the continued acceptance of Federal payments by the securities industry.

EFT #177

T.RowePrice

Remittance Information

For the benefits of electronic payments to be realized, the recipient of the payment must be able to apply the payment in an efficient manner. Although the proposed rule improves efficiency by requiring virtually all vendors to receive EFT, there is no language in the proposed rule requiring the paying agencies to provide remittance information **in any form**, let alone in an acceptable electronic format.
The electronic delivery of both payments and remittance information is now common for commercial payments and, indeed, for Federal payments in the Vendor Express program. The National Automated Clearing House Association ("NACHA"), for example, has developed standardized formats for addenda records to carry remittance information accompanying electronic payments. Further, NACHA has recently adopted a rule which requires every financial institution to make such remittance information available to any company requesting it. A major impetus for NACHA to adopt this rule was to be sure the banking infrastructure of the U.S. would be ready to support inclusion of remittance information with governmental electronic payments. We strongly recommend that, in the final rule, each agency be required to provide remittance information with every payment to a recipient and that the information be in the form of a standardized addenda record format or other form mutually agreeable to the agency and recipient. If such an arrangement is impossible for a particular agency, then a Waiver (under Section 208.4), allowing check payments, should be available for vendors of that agency.

Account Name

Section 208.6 (a) reads, in part, "(t)he account at the financial institution shall be in the name of the recipient...." To make bank account management more efficient, many organizations have adopted the practice of using one general bank account to handle the receipts and payments of any number of subsidiaries, departments, plants, divisions, etc. The organizations using such arrangements have accounting and recordkeeping to assure the receipts and payments are applied to the proper unit. The proposed requirement that every unit of an organization, that does business with the Federal government, have a bank account in its own name to receive government payments is contrary to modern cash management and bank management practices. This proposed requirement would result in a significant reduction in efficiency, the opposite of the intended result.

The intent of the proposed language, presumably, is to be sure the intended recipient is receiving the payment. TRPA recommends the final rule incorporate a simple process whereby

a recipient could designate to the paying agency the bank account to receive its payments, regardless of the name and owner of that account.

Investment Account

The proposed rule provides for payments to an investment account. The intent of this proposed rule could be very beneficial to individuals and other recipients as the use of non-bank transaction and investment accounts is growing rapidly, and all-EFT payments could allow more efficient participation. TRPA has considerable experience with electronic payments from a variety of sources, as over 60% of our mutual fund purchase transactions are by ACH. In addition, we currently handle over 2.5 million ACH transactions per year for purchases and redemptions of our mutual funds.

Having payments received in an investment account is another example of the need to require agencies to provide remittance information for each payment. Without such information, the moneys transferred to such accounts will not be able to be applied to the appropriate individual mutual fund or brokerage account in an efficient manner.

In addition, there are two aspects of Section 208.6(b)(2) of the proposed rule which will cause difficulty for the securities industry. The first is the provision that, "(w)here a Federal payment is to be deposited into an investment account *established through a securities broker or dealer registered under the Securities Exchange Act of 1934*, such payment may be *deposited into an account in the name of the broker or dealer...*"(italics added). It could be argued that the wording of this provision would not permit Federal payments to an account in a mutual fund where shares of such fund are sold directly to investors, rather than through intermediaries, such as an unaffiliated broker/dealer. For these "direct-marketed" fund complexes, mutual fund transactions may be handled by the transfer agent for such funds. Like broker/dealers, direct-marketed fund complexes and their transfer agents are subject to oversight by the Securities and Exchange Commission. These fund families have been strong advocates of EFT and have devoted substantial resources to develop efficient procedures for accepting such payments. In addition, failure to recognize the scope and significance of this "direct purchase" market would severely jeopardize the current and future expectations of those investors choosing to have Federal payments directed to their mutual fund accounts. Accordingly, although the intention of proposed Section 208.6(b)(2) may have been to permit payments to be directed to such mutual fund accounts, we believe the text of the final rule should specifically reflect this intention. We recommend the final rule language, and accompanying explanatory text, include the fact that Federal payments may be directed to an

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investment account established through an investment company (commonly referred to as a mutual fund) registered under the Investment Company Act of 1940 or its transfer agent, and that such payments may be deposited into a bank account designated by such investment company or transfer agent.

The second aspect of the proposed language of Section 208.6(b)(2) which would cause difficulty to the securities and mutual fund industry lies in the provision that "...such payment may be deposited into an account in the name of the broker or dealer, *provided the account and all associated records are structured so that the recipient's interest is protected under applicable Federal or state deposit insurance regulations"* (italics added). Further, the explanatory notes to Section 208.6 state, "(t)he requirement that the account and associated records be structured so that the recipient's interest is protected under applicable Federal or state deposit insurance regulations ensures that *the recipient's interest in a master account is individually insured to the same extent it would be if the account were in the name of the recipient alone*" (italics added). Compliance with this section would be very difficult for some firms and impossible for others.

Under current deposit insurance rules, while the investment money is in the bank account designated by the broker/dealer or mutual fund, FDIC, which is the primary deposit insurance provider, does not recognize the interests of anyone in the account but the owner. The FDIC will only provide deposit insurance to the broker/dealer or mutual fund transfer agent, up to the stated level of insurance, currently $100,000.

Depending on the nature of their operation, a broker/dealer or mutual fund transfer agent could receive investment money in many different accounts. For example, these different accounts might be determined by geography, type of payment received, type of investment vehicle, or by bank. Federal payments will be to broker/dealer and mutual fund accounts which cover the full range of these variables. On any given day, such accounts might receive EFT investment payments from a wide variety of individuals, corporations, investment advisors, Federal agencies, etc. In addition, any given agency might be sending a "batch" of payments which could include investments to be made into a variety of mutual funds, variable annuities, specific securities, etc. Therefore, a broker/dealer or mutual fund transfer agent might not have anything resembling the "master account" mentioned in the commentary.

Broker/dealers and mutual fund transfer agents receive payments from tens of thousands (and in some cases hundreds of thousands) of **different** investors each day. The commentary on Section 208.6 accurately describes the investment receipt process. Funds are deposited into a

designated account at a financial institution and are swept out of that account on a regular basis and into an investment vehicle owned by the recipient. Note, please, this investment process has three steps, namely (1) the money is received in the designated bank account, (2) it remains there, for a period of time up to the next business day, while the specific investor and investment vehicle is determined (by an automated or manual process), and (3) it is then moved from the bank account into that investment. The point being that as soon as the recipient and the appropriate investment vehicle can be identified, the "sweep" occurs. The proposed rule, however, calls for the broker/dealer or mutual fund transfer agent to identify the recipients - and somehow provide each with deposit insurance - during steps (1) and (2) of the above described process, **which is before that information has been determined.**

It has been suggested that some arrangement of "phantom accounts" or "sub-accounts" could be created to provide underlying deposit insurance. There is precedent for this idea in the "allotment" of pay of Federal employees, where the pay is directed to a bank which maintains a series of "sub-accounts" until the investment can be made. There are several reasons, however, why this process **should not be considered a model** for future electronic payments from the Federal government, including:

1. Today that pay allotment process delays the movement of money from the sub-account into the intended investment by as much as 4 days.

2. Some agencies, and/or the employees of some agencies, have already moved away from that pay allotment process and the pay is being sent by EFT directly to an account of the broker/dealer or mutual fund transfer agent and intermixed with EFT payments from all other customers.

3. Federal agencies, such as the Internal Revenue Service and the Social Security Administration, are currently sending EFT transactions directly to investment accounts, without the sub-account or underlying deposit insurance requirements.

4. Establishing and maintaining such a system is very costly and burdensome, with no demonstrable benefit.

5. In the entire range of payments taking place in the consumer and commercial marketplace today, there is no similar concept of the receiver of a payment somehow identifying, and providing deposit insurance to, each payee before the payment is applied.

6. This pay allotment process is a "closed system", with predefined customers, payment schedules, sources and dollar amounts. By contrast, in the future, Federal payments will be routed to investment accounts on an *ad hoc* basis for any customer, at any time, from any agency, and for any dollar amount.

In summary, TRPA recommends that Section 208.6(b)(2) should read, **"Where a Federal payment is to an investment account established through a broker or dealer registered under the Securities Exchange Act of 1934, or an investment account established through an investment company registered under the Investment Company Act of 1940 or its transfer agent, such payment may be deposited into an account designated by such broker or dealer, investment company or transfer agent."**

Thank you for this opportunity to provide comments on this important development.

Very Truly Yours,

Nolan L. North
Vice President
T. Rowe Price Associates, Inc.

Henry H. Hopkins
Director
T. Rowe Price Associates, Inc.